

**MALVERN
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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MALVERN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Susan Stogdill	President	2006
Deanne Mulholland	Vice President	2005
Debra Lefevre		2005
LeAnn Peterson		2004
Crystal Green		2006

(After September, 2004 Election)

Debra Lefevre	President	2005
Susan Stogdill	Vice President	2006
Deanne Mulholland		2005
Dale Stephens		2007
Crystal Green		2006

SCHOOL OFFICIALS

Curtis Barclay	Superintendent
Denise Stevens	District Secretary/Treasurer
(Resigned November 2004)	
Sue Davis	District Secretary
(Appointed November 2004)	
Darla Hetzel	District Treasurer
(Appointed November 2004)	

Independent Auditor's Report

To The Board of Education of the
Malvern Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Malvern Community School District, Malvern, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Malvern Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2005 on our consideration of Malvern Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 29 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Malvern Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September 29, 2005

MALVERN COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Malvern Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,987,139 in fiscal 2004 to \$2,929,891 in fiscal 2005, while General Fund expenditures increased from \$2,917,971 in fiscal year 2004 to \$3,108,063 in fiscal 2005. The District's General Fund balance decreased from \$608,159 in fiscal 2004 to \$429,987 in fiscal 2005, a 29% decrease.
- The increase in expenses is due to normal increases in salary and employee benefits as well as increased energy costs.
- State revenues increased from fiscal 2004 to fiscal 2005. However, it was offset by a decrease in property taxes due to decrease in property valuations.
- Net open enrolled in students decreased by 10.8 in fiscal 2005. The District has a plus 4.1 net in open enrolled students.
- The District's solvency ratio was 15% at the end of fiscal 2005. The solvency ratio is indicative of the District's ability to meet its financial obligations. This is a decrease of 5% from the prior year.
- The District is a recipient of the Reading First Program Grant (a Federal Grant) for the period June 1, 2003 through June 30, 2006. Approximately \$37,663 will be allotted to fund Reading First Programs each of those years.
- SILO or Local Option Sales Tax was voted into Mills County in October 2003. We received our first monthly check in the amount of \$5,087 in February 2004. These dollars can only be used for infrastructure projects. A total of \$126,958 had been collected and was on hand at June 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Malvern Community School District

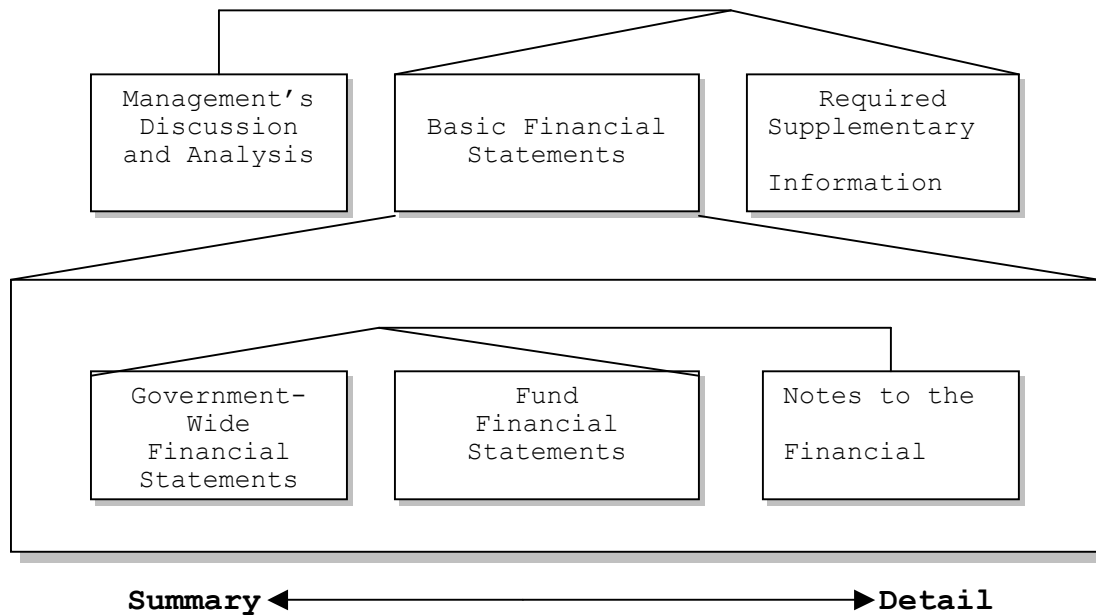


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - The District holds money for outside groups in a custodial capacity.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Current assets	2,389	2,288	25	30	2,414	2,318	4.14%
Capital assets	<u>710</u>	<u>668</u>	<u>4</u>	<u>5</u>	<u>714</u>	<u>673</u>	<u>6.09%</u>
Total assets	<u>3,099</u>	<u>2,956</u>	<u>29</u>	<u>35</u>	<u>3,128</u>	<u>2,991</u>	<u>4.58%</u>
Current liabilities	1,347	1,381	5	2	1,352	1,383	-2.24%
Non-current liabilities	<u>128</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128</u>	<u>-</u>	<u>0.00%</u>
Total liabilities	<u>1,475</u>	<u>1,381</u>	<u>5</u>	<u>2</u>	<u>1,480</u>	<u>1,383</u>	<u>7.01%</u>
Net Assets							
Invested in capital assets, net of related debt	710	668	4	5	714	673	6.09%
Restricted	384	268	-	-	384	268	43.28%
Unrestricted	<u>530</u>	<u>639</u>	<u>20</u>	<u>28</u>	<u>550</u>	<u>667</u>	<u>-17.54%</u>
Total net assets	<u>1,624</u>	<u>1,575</u>	<u>24</u>	<u>33</u>	<u>1,648</u>	<u>1,608</u>	<u>2.49%</u>

Total net assets increased due to increases in all funds except General Fund. Unrestricted net assets dropped due to the decrease in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities \$	Business-type Activities \$	Total School District \$
Revenues:			
Program revenues:			
Charges for service and sales	214	74	288
Operating grants, contributions and restricted interest	615	70	685
General revenues:			
Property tax	1,021	-	1,021
Income surtax	142	-	142
Local option sales tax	100	-	100
Unrestricted state grants	1,296	-	1,296
Unrestricted investment earnings	9	-	9
Other	5	-	5
Total revenues	3,402	144	3,546
Program expenses:			
Governmental activities:			
Instruction	2,234	-	2,234
Support Services	901	-	901
Non-instructional programs	-	152	152
Other expenses	218	-	218
Total expenses	3,353	152	3,505
Change in net assets	49	(8)	41

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,401,909 and expenses were \$3,352,744.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,234	1,523
Support Services	901	892
Other expenses	<u>218</u>	<u>109</u>
Totals	<u><u>3,353</u></u>	<u><u>2,524</u></u>

- The cost financed by users of the District's programs was \$213,692.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$508,015.
- The net cost of governmental activities was financed with \$1,021,142 in property tax, \$1,296,187 in state foundation aid, and \$8,758 in interest income.

Proprietary-Type Funds

Revenues for the District's School Nutrition Fund were \$143,591 and expenses were \$152,015. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Malvern Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$1,624,219, which is 3% greater than last year's ending fund balance of \$1,574,954.

GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the increase in the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- A prior year enrollment increase brought additional state foundation aid to the District.
- Property tax revenues decreased 7% due to property devaluations. State aid offset a portion, however, the PPEL fund dollars can not be replaced.
- The District's revenues from Federal sources increased due to the Rural Education Achievement Program.
- The school infrastructure sales began to be collected in January, 2004. This will aid the school in future infrastructure projects.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased over \$8,000 in Fiscal 2004.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenue exceeded budgeted amounts primarily due to increases in tuition income and federal grant activity.

CAPITAL ASSETS

The District has invested more than \$2 million by the end of fiscal year 2005 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all facilities during the year. Total depreciation expenses for the year exceeded \$96,000.

LONG-TERM DEBT

The borrowed \$127,770 for the purpose of constructing a new playground. This will be repaid over the next 3 years from the Physical Plant and Equipment Levy.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District will need to monitor payroll expenses as they account for the vast majority of the budget.
- Alternative sources must be found due to funding inconsistencies on the parts of the federal and state governments.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.
- Enrollment increases and decreases will play a large part in determining the District's finances on an year to year basis. The legislature needs to ensure adequate allowable growth to properly fund education.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darla Hetzel, District Business Manager, Malvern Community School District, 1505 East 15th St, Malvern, IA 51551.

Basic Financial Statements

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,064,637	12,310	1,076,947
Receivables:			
Property tax:			
Current year	19,773	-	19,773
Succeeding year	1,057,535	-	1,057,535
Income surtax - succeeding year	68,000	-	68,000
Due from other governments	28,279	-	28,279
Accrued interest receivable	1,386	-	1,386
Other receivables	101,724	-	101,724
Inventories	-	12,326	12,326
Prepaid expenses	47,491	-	47,491
Capital assets, net of accumulated depreciation	709,859	4,189	714,048
Total assets	<u>3,098,684</u>	<u>28,825</u>	<u>3,127,509</u>
Liabilities			
Accounts payable	36,674	-	36,674
Accrued payroll and benefits	252,486	4,672	257,158
Deferred revenue:			
Succeeding year property tax	1,057,535	-	1,057,535
Long-term liabilities:			
Capital loan notes - current portion	42,590	-	42,590
Capital loan notes - long-term	85,180	-	85,180
Total liabilities	<u>1,474,465</u>	<u>4,672</u>	<u>1,351,367</u>
Net assets			
Invested in capital assets, net of related debt	709,859	4,189	714,048
Restricted for:			
Management levy	106,817	-	106,817
Physical plant and equipment levy	150,266	-	150,266
Capital projects	126,958	-	126,958
Unrestricted	530,319	19,964	550,283
Total net assets	<u>1,624,219</u>	<u>24,153</u>	<u>1,648,372</u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	1,297,451	142,236	302,353	(852,862)	-	(852,862)
Special instruction	649,764	71,456	98,927	(479,381)	-	(479,381)
Other instruction	286,755	-	95,732	(191,023)	-	(191,023)
	<u>2,233,970</u>	<u>213,692</u>	<u>497,012</u>	<u>(1,523,266)</u>	<u>-</u>	<u>(1,523,266)</u>
Support services:						
Student services	45,733	-	1,821	(43,912)	-	(43,912)
Instructional staff services	77,231	-	-	(77,231)	-	(77,231)
Administration services	388,657	-	-	(388,657)	-	(388,657)
Operation and maintenance of plant services	274,924	-	5,771	(269,153)	-	(269,153)
Transportation services	113,852	-	749	(113,103)	-	(113,103)
	<u>900,397</u>	<u>-</u>	<u>8,341</u>	<u>(892,056)</u>	<u>-</u>	<u>(892,056)</u>
Other expenditures:						
AEA flowthrough	109,615	-	109,615	-	-	-
Facilities acquisition and construction	13,010	-	-	(13,010)	-	(13,010)
Depreciation (unallocated)*	95,752	-	-	(95,752)	-	(95,752)
	<u>218,377</u>	<u>-</u>	<u>109,615</u>	<u>(108,762)</u>	<u>-</u>	<u>(108,762)</u>
Total governmental activities	3,352,744	213,692	614,968	(2,524,084)	-	(2,524,084)

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	152,015	74,210	69,381	-	(8,424)	(8,424)
Total	<u>3,504,759</u>	<u>287,902</u>	<u>684,349</u>	(2,524,084)	(8,424)	(2,532,508)
General revenues:						
Property tax levied for:						
General purposes				883,235	-	883,235
Management levy				59,239	-	59,239
Capital outlay				78,668	-	78,668
Income surtax				141,802	-	141,802
Local option sales taxes				99,978	-	99,978
Unrestricted state grants				1,296,187	-	1,296,187
Unrestricted investment earnings				8,758	-	8,758
Other				<u>5,482</u>	-	<u>5,482</u>
Total general revenue				<u>2,573,349</u>	-	<u>2,573,349</u>
Change in net assets				49,265	(8,424)	40,841
Net assets beginning of year				<u>1,574,954</u>	<u>32,577</u>	<u>1,607,531</u>
Net assets end of year				<u>1,624,219</u>	<u>24,153</u>	<u>1,648,372</u>

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	566,820	288,668	117,303	91,846	1,064,637
Receivables:					
Property tax:					
Current year	17,103	1,523	-	1,147	19,773
Succeeding year	923,011	79,524	-	55,000	1,057,535
Income surtax - succeeding year	-	68,000	-	-	68,000
Due from other governments	18,624	-	9,655	-	28,279
Accrued interest receivable	1,386	-	-	-	1,386
Other receivables	97,702	3,840	-	182	101,724
Prepaid expenses	-	-	-	47,491	47,491
Total assets	<u>1,624,646</u>	<u>441,555</u>	<u>126,958</u>	<u>195,666</u>	<u>2,388,825</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	19,162	15,995	-	1,517	36,674
Accrued payroll and benefits	252,486	-	-	-	252,486
Deferred revenue:					
Succeeding year property tax	923,011	79,524	-	55,000	1,057,535
Succeeding year income surtax	-	68,000	-	-	68,000
Total liabilities	<u>1,194,659</u>	<u>163,519</u>	<u>-</u>	<u>56,517</u>	<u>1,414,695</u>
Fund balances:					
Reserved for capital projects	-	-	126,958	-	126,958
Unreserved	<u>429,987</u>	<u>278,036</u>	<u>-</u>	<u>139,149</u>	<u>847,172</u>
Total fund balances	<u>429,987</u>	<u>278,036</u>	<u>126,958</u>	<u>139,149</u>	<u>974,130</u>
Total liabilities and fund balances	<u>1,624,646</u>	<u>441,555</u>	<u>126,958</u>	<u>195,666</u>	<u>2,388,825</u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 974,130
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	68,000
Capital assets used in governmental activities are not assets in the governmental funds.	709,859
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Capital loan notes	<u>(127,770)</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 1,624,219</u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	883,235	152,470	99,978	59,239	1,194,922
Tuition	213,692	-	-	-	213,692
Other	28,855	5,678	-	86,660	121,193
State sources	1,613,793	53	-	40	1,613,886
Federal sources	190,316	-	-	-	190,316
Total revenues	<u>2,929,891</u>	<u>158,201</u>	<u>99,978</u>	<u>145,939</u>	<u>3,334,009</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,290,533	-	-	6,918	1,297,451
Special instruction	649,764	-	-	-	649,764
Other instruction	201,216	-	-	85,539	286,755
	<u>2,141,513</u>	<u>-</u>	<u>-</u>	<u>92,457</u>	<u>2,233,970</u>
Support services:					
Student services	34,228	-	-	11,505	45,733
Instructional staff services	77,231	-	-	-	77,231
Administration services	381,668	-	-	6,989	388,657
Operation and maintenance of plant services	259,693	79,873	-	15,843	355,409
Transportation services	104,115	44,944	-	9,737	158,796
	<u>856,935</u>	<u>124,817</u>	<u>-</u>	<u>44,074</u>	<u>1,025,826</u>
Other expenditures:					
AEA flowthrough	109,615	-	-	-	109,615
Facilities acquisition and construction	-	25,625	-	-	25,625
	<u>109,615</u>	<u>25,625</u>	<u>-</u>	<u>-</u>	<u>135,240</u>
Total expenditures	<u>3,108,063</u>	<u>150,442</u>	<u>-</u>	<u>136,531</u>	<u>3,395,036</u>
Excess (deficiency) of revenues over (under) expenditures	(178,172)	7,759	99,978	9,408	(61,027)
Other financing sources:					
Proceeds of capital loan notes	-	127,770	-	-	127,770
Net change in fund balance	(178,172)	135,529	99,978	9,408	66,743
Fund balances beginning of year	608,159	142,507	26,980	129,741	907,387
Fund balances end of year	<u>429,987</u>	<u>278,036</u>	<u>126,958</u>	<u>139,149</u>	<u>974,130</u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 66,743

**Amounts reported for governmental activities in the
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income
until received in the governmental funds, however it is shown as a
revenue in the Statement of Activities. 68,000

Capital outlays to purchase or build capital assets are reported in
governmental funds as expenditures. However, those costs are
reported in the Statement of Net Assets and are allocated over their
estimated useful lives as depreciation expense in the Statement of
Activities. The amounts of depreciation expense in the year are as follows:

Capital outlays	138,044
Depreciation expense	(95,752)

Proceeds from issuing long-term liabilities provide current financial
resources to governmental funds, but issuing debt increases long-term
liabilities in the Statement of Net Assets.

Issuance of capital loan notes	(127,770)
--------------------------------	-----------

Change in net assets of governmental activities (Exhibit B) \$ 49,265

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>74,210</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	53,560
Benefits	7,130
Services	4,572
Supplies	84,874
Property	1,472
Depreciation	<u>407</u>
Total operating expenses	<u>152,015</u>
Operating (loss)	<u>(77,805)</u>
Non-operating revenues:	
State sources	2,199
Federal sources	67,080
Interest income	<u>102</u>
	<u>69,381</u>
Changes in net assets	(8,424)
Net assets beginning of year	<u>32,577</u>
Net assets end of year	<u><u>24,153</u></u>

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	74,248
Cash payments to employees for services	(58,564)
Cash payments to suppliers for goods or services	(85,516)
Net cash (used in) operating activities	<u>(69,832)</u>
Cash flows from non-capital financing activities:	
State grants received	2,199
Federal grants received	<u>60,106</u>
Net cash provided by non-capital financing activities	<u>62,305</u>
Cash flows from investing activities:	
Interest on investments	<u>102</u>
Net increase in cash and cash equivalents	(7,425)
Cash and cash equivalents beginning of year	<u>19,735</u>
Cash and cash equivalents end of year	<u><u>12,310</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(77,805)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	407
Commodities used	6,974
Decrease in other receivables	39
(Increase) in inventory	(1,765)
Increase in accrued payroll and benefits	<u>2,318</u>
	<u><u>(69,832)</u></u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>12,310</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$6,974.

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts	Agency Funds
	Chantry Bequest	
	\$	\$
Assets		
Cash and pooled investments	2,502	14,574
Liabilities		
Other payables	-	14,574
Net Assets		
Reserved for special purposes	2,502	-

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts
	Chantry Bequest
	\$
Additions:	
Local sources:	
Miscellaneous	58
Total additions	58
Deductions:	
Support services:	
Scholarships	-
Total deductions	-
Change in net assets	58
Net assets beginning of year	2,444
Net assets end of year	2,502

See notes to financial statements.

MALVERN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Malvern Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Malvern, Iowa, and agricultural area in Mills County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Malvern Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Malvern Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Mills County Assessor Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Investments and Cash Equivalents - The cash balances of most District funds are invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements did not exceed the amount budgeted in any of the four functions.

(2) Cash and Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2005.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,000	29,000	-	30,000
Capital assets being depreciated:				
Land improvements	113,571	12,615	-	126,186
Buildings	1,374,468	51,485	-	1,425,953
Furniture and equipment	773,823	44,944	-	818,767
Total capital assets being depreciated	2,261,862	109,044	-	2,370,906
Less accumulated depreciation for:				
Land improvements	81,859	6,309	-	88,168
Buildings	861,535	28,519	-	890,054
Furniture and equipment	651,901	60,924	-	712,825
Total accumulated depreciation	1,595,295	95,752	-	1,691,047
Total capital assets being depreciated, net	666,567	13,292	-	679,859
Governmental activities, capital assets, net	\$ 667,567	42,292	-	709,859

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	15,512	0	-	15,512
Less accumulated depreciation	<u>10,916</u>	<u>407</u>	<u>-</u>	<u>11,323</u>
Business type activities capital assets, net	<u>\$ 4,596</u>	<u>(407)</u>	<u>-</u>	<u>4,189</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated

\$ 95,752

Business Type activities:

Food service operations

\$ 407

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$98,687, \$96,770, and \$92,854 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$109,615 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(6) Risk Management

Malvern Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Long Term Debt/Commitments

In June 2005 the District borrowed \$127,770 for the purchase of new playground materials, construction began after July 1, 2005. The loan will be repaid in three equal payments of \$42,590 principal plus applicable interest annually beginning in June 2006. The annual interest rate is 4.1071%

Required Supplementary Information

MALVERN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,429,299	74,350	1,503,649	1,525,301	1,525,301	(21,652)
State sources	1,613,886	2,199	1,616,085	1,630,244	1,630,244	(14,159)
Federal sources	190,316	60,106	250,422	295,000	295,000	(44,578)
Total receipts	<u>3,233,501</u>	<u>136,655</u>	<u>3,370,156</u>	<u>3,450,545</u>	<u>3,450,545</u>	<u>(80,389)</u>
Disbursements:						
Instruction	2,173,652	-	2,173,652	2,685,128	2,685,128	511,476
Support services	1,025,826	-	1,025,826	964,400	1,085,000	59,174
Non-instructional programs	-	144,080	144,080	145,000	155,000	10,920
Other expenditures	135,240	-	135,240	189,141	189,141	53,901
Total disbursements	<u>3,334,718</u>	<u>144,080</u>	<u>3,478,798</u>	<u>3,983,669</u>	<u>4,114,269</u>	<u>635,471</u>
Excess (deficiency) of receipts over (under) disbursements	(101,217)	(7,425)	(108,642)	(533,124)	(663,724)	555,082
Other financing sources (uses)	<u>127,770</u>	<u>-</u>	<u>127,770</u>	<u>-</u>	<u>-</u>	<u>127,770</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	26,553	(7,425)	19,128	(533,124)	(663,724)	682,852
Balance beginning of year	<u>1,038,084</u>	<u>19,735</u>	<u>1,057,819</u>	<u>1,044,524</u>	<u>1,044,524</u>	<u>13,295</u>
Balance end of year	<u><u>1,064,637</u></u>	<u><u>12,310</u></u>	<u><u>1,076,947</u></u>	<u><u>511,400</u></u>	<u><u>380,800</u></u>	<u><u>696,147</u></u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 3,233,501	100,508	3,334,009
Expenditures	<u>3,334,718</u>	<u>60,318</u>	<u>3,395,036</u>
Net	(101,217)	40,190	(61,027)
Other financing sources (uses)	127,770	-	127,770
Beginning fund balances	<u>1,038,084</u>	<u>(130,697)</u>	<u>907,387</u>
Ending fund balances	<u>\$ 1,064,637</u>	<u>(90,507)</u>	<u>974,130</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 136,655	6,936	143,591
Expenditures	<u>144,080</u>	<u>7,935</u>	<u>152,015</u>
Net	(7,425)	(999)	(8,424)
Beginning fund balances	<u>19,735</u>	<u>12,842</u>	<u>32,577</u>
Ending fund balances	<u>\$ 12,310</u>	<u>11,843</u>	<u>24,153</u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$130,600.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

MALVERN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	58,179	33,667	91,846
Property tax receivable:			
Current year	1,147	-	1,147
Succeeding year	55,000	-	55,000
Other receivables	-	182	182
Prepaid expenses	47,491	-	47,491
Total assets	<u>161,817</u>	<u>33,849</u>	<u>195,666</u>
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	-	1,517	1,517
Deferred revenue:			
Succeeding year property tax	55,000	-	55,000
	<u>55,000</u>	<u>1,517</u>	<u>56,517</u>
Fund equity:			
Unreserved, undesignated fund balance	106,817	32,332	139,149
	<u>106,817</u>	<u>32,332</u>	<u>139,149</u>
Total liabilities and fund equity	<u>161,817</u>	<u>33,849</u>	<u>195,666</u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	59,239	-	59,239
Other	-	86,660	86,660
State sources	40	-	40
Total revenues	<u>59,279</u>	<u>86,660</u>	<u>145,939</u>
Expenditures:			
Instruction:			
Regular instruction	6,918	-	6,918
Co-curricular instruction	-	85,539	85,539
Support services:			
Student support services	11,505	-	11,505
Administrative services	6,989	-	6,989
Plant operation and maintenance	15,843	-	15,843
Student transportation	9,737	-	9,737
Total expenditures	<u>50,992</u>	<u>85,539</u>	<u>136,531</u>
Excess of revenues over expenditures	8,287	1,121	9,408
Fund balances beginning of year	<u>98,530</u>	<u>31,211</u>	<u>129,741</u>
Balance end of year	<u><u>106,817</u></u>	<u><u>32,332</u></u>	<u><u>139,149</u></u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Chantry Music	370	302	637	35
Instrumental Music	293	(50)	38	205
Athletics	4,276	32,510	30,119	6,667
National Honor Society	23	162	108	77
Speech Club	-	303	261	42
Spanish Club	372	-	-	372
News Staff	-	-	-	-
Annual	-	2,587	-	2,587
Art Club	332	-	36	296
Concessions	10,391	13,559	14,890	9,060
Panther Den	850	(40)	307	503
Cheerleading	286	-	41	245
JH Math/Science Club	553	-	-	553
FCCLA	(120)	9,132	8,577	435
Drama	-	812	512	300
Library Club	393	-	-	393
Weight Club	372	-	168	204
HOSA	28	-	28	-
Class of 2007	403	5,823	2,437	3,789
Class of 2008	333	56	-	389
Class of 2009	335	180	40	475
Class of 2010	-	788	-	788
Class of 2006	2,562	4,478	6,116	924
Class of 2003	416	(416)	-	-
Class of 2004	1,649	(632)	1,017	-
Class of 2005	1,042	831	1,886	(13)
Revolving	388	10,420	9,922	886
Shop	54	-	-	54
Student Council	1,286	514	680	1,120
Science Club	28	-	-	28
Chantry Activity	968	3,685	3,261	1,392
Chantry Library	2,888	1,422	4,052	258
Chantry Reading	440	234	406	268
Totals	31,211	86,660	85,539	32,332

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities

Agency Fund

Year ended June 30, 2005

Account	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Education Services	6,438	701	2,937	4,202
Picture Commissions	62	-	-	62
HS Employees	1,818	128	173	1,773
Outdoor Classroom	1,904	-	256	1,648
Cash for Schools	5,705	648	469	5,884
Costello Music Award	5,963	-	4,958	1,005
	<u>21,890</u>	<u>1,477</u>	<u>8,793</u>	<u>14,574</u>

See accompanying independent auditor's report.

MALVERN COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

All Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$			
Local sources:				
General	883,235	998,914	1,019,462	819,859
Special revenue/debt service	211,709	224,338	200,273	199,439
Capital projects	99,978	26,980	-	-
	<u>1,194,922</u>	<u>1,223,252</u>	<u>1,219,735</u>	<u>1,019,298</u>
State sources:				
General	1,613,793	1,593,327	1,492,304	1,534,250
Special revenue/debt service	93	96	86	4,706
School nutrition	2,199	2,256	2,392	2,301
	<u>1,616,085</u>	<u>1,595,679</u>	<u>1,494,782</u>	<u>1,541,257</u>
Federal sources:				
General	190,316	134,211	151,944	72,372
Special revenue	-	-	24,970	-
School nutrition	67,080	73,988	70,262	61,981
	<u>257,396</u>	<u>208,199</u>	<u>247,176</u>	<u>134,353</u>
Total	<u>3,068,403</u>	<u>3,027,130</u>	<u>2,961,693</u>	<u>2,694,908</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Malvern Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Malvern Community School District as of and for the year ended September 29, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Malvern Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Malvern Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Malvern Community School District and other parties to whom Malvern Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Malvern Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 29, 2005

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

05-I-B Accounting for Loan Proceeds - The District borrowed \$127,770 through an Iowa Association of School Board Program. The loan is properly treated as capital loan notes to be repaid from the District's Physical Plant and Equipment Levy (voted portion). However, the proceeds of the loans were deposited into a bank that had not been approved as a depository by the District. The amount also exceed FDIC insurance limits (see 05-II-A). Payments for the project were withdrawn from this account based only on approval from the District's Superintendent and were not individually approved by the Board of Education. These transactions were not included in the financial records of the District. Account statements were not furnished until the project had been substantially completed and then only upon request of the District.

Recommendation - We recommend that the District enter all of the transactions into its financial records. We also recommend that all future projects have all funds deposited in approved depositories and all transactions be approved and processed in the District's financial records as required by the Code of Iowa.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. During the year ending June 30, 2005, the District deposited funds in a depository not approved by the Board of Education (see 05-I-B). Also, the amount deposited in that institution exceeded FDIC insured limits.

Recommendation - We recommend that all depositories have prior approval in amounts sufficient to cover all deposits.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

MALVERN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

- 05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the certified budget amounts.
- 05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 05-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.